

## Syria Moving Further Toward Liberalizing Economy

Syria has taken another step in the long process of reforming and liberalizing its economy, increasing the independence of the central bank and moving to regulate government borrowing, The Oxford Business Group said.

It said on Oct. 9, Syrian President Bashar Assad ratified legislation authorizing the central bank to issue treasury securities. Under the new legislation, the bank will be able to issue two types of securities: treasury bills that will mature in approximately one year and bonds that will have a maturity term of between one and 30 years.

The finance ministry will be required to obtain funds through the central bank via the issuing of securities, in contrast to the ministry's present practice of drawing loans directly from the central bank to fund the budget deficit and meet other financing needs, according the report by the Oxford Business Group.

It said the treasury securities law explicitly lays out the terms for which the funds raised by the issuing of bills and bonds can be used.

Such funds, the Group said, include financing of the budget deficit; projects deemed to be of national importance; catastrophes or emergency situations; paying off the public debt and the management of short-term government cash flows.

As total state debt stood at 35.9% of GDP at the end of 2006 according to the International Monetary Fund (IMF), this gives the government freedom to raise funds through the open market, the report said.

It said the legislation was not expected to come into force until early next year, around the same time that the long-delayed Damascus Stock Exchange is tipped to start trading.

The Group said the new securities law was seen as a major step in Syria's financial reform process.

The issuing of treasury securities and the reinforcing of the central bank were measures called for by the IMF as part of its recommendations to Syria in its most recent report on the state of the country's economy.

However, more needed to be done, including putting in place mechanisms to offer treasury securities, according to Oxford Business Group.

Among the benefits to be gained by the move to securities, the IMF listed increased dividend payments from the central bank and state banks; higher tax revenues from private banks and the development of an efficient benchmark yield curve and a risk-free rate of return.

Opening a securities issue will also benefit Syria's burgeoning banking sector, the report said. With the liberalization of the sector during the past two years, there has been a steady inflow of deposits, lifting the central bank's holdings well above the \$5bn of 2006.

The Group said the move could also serve to attract Syrian funds deposited offshore -- estimated by analysts at between \$60bn to \$80bn -- back into the country's domestic market, giving the economy a much-needed boost.

Whether the central bank will start offering treasury bills and bonds at the beginning of next year remains to be seen, the Group concluded, adding that history has shown long time lags between the government promulgating financial reforms and legislation actually coming into effect.